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PLAN OF REORGANIZATION

THE NATIONAL TOOL COMPANY

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THE NATIONAL TOOL COMPANY

11200 WEST MADISON AVENUE

CLEVELAND, OHIO

To the Shareholders of
The National Tool Company:

On March 26th, 1937, The National Tool Company filed a Petition in the District Court of the United States for the Northern District of Ohio, Eastern Division, for the purpose of effecting a reorganization under the provisions of Section 77B of the Federal Bankruptcy Laws. The Board of Directors of the Company, after protracted negotiations and mature consideration, adopted a Plan of Reorganization, dated March 25th, 1937, which was filed in these proceedings on March 27th, 1937. A copy of this Plan is presented to you herewith for approval and acceptance.

For many years it has been evident that the only hope of perpetuating this Company on a stable and successful basis lay in a fundamental reorganization under which adequate funds would be made available to pay accumulated indebtedness and to supply necessary capital for plant improvements and economical operations. Hitherto, all efforts exerted to find means to achieve this object proved futile. Now, however, this long sought opportunity has been developed, and we urge that it be promptly embraced.

Without describing at length the several factors which have brought about the existing plight of this Company, it is enough to say that for nearly fifteen years it has been burdened with an indebtedness which it could not discharge, and which hung over it as an ever present threat of destruction. Lack of capital, moreover, prevented the acquisition of superior equipment that would make production possible at costs low enough to meet the competitive conditions in the industry, and barred efforts for sales expansion for which there was imperative need.

At present, the chief creditor of the Company is pressing for payment of his claim of about $170,000. He can no longer be pacified with promises, and, unless steps are taken promptly to pay this obligation, suit will follow, and, thereafter, bankruptcy and liquidation will become inescapable. The National Tool Company has been in business for more than thirty years; it enjoys an enviable reputation in the trade; it is engaged in manufacturing a basic product indispensible to the mechanical industries; it has the capacity for profitable operations; it ought, by all means, to be saved.

Your Directors, therefore, in seeking a feasible Plan of Reorganization, were confronted with a three-fold problem:

First: To obtain a sufficient amount of money by temporary borrowing to pay off all pressing indebtedness.

Second: To provide means of discharging this new indebtedness out of resources other than earnings which, under present tax laws, must largely be distributed to shareholders; and, at the same time, to secure additional funds for plant betterments and working capital.

Third: To effect these purposes and yet leave present shareholders with an ultimate opportunity of recovering an equitable share for their investments.

Let it be borne in mind that if this Company is driven to bankruptcy, not a dollar would be left for shareholders. The stock would be wiped out; only a fraction of the aggregate debts could be paid; and an old and reputable business, with excellent prospects, if well financed and well managed, would be annihilated. Further, it must be remembered that in view of the fact that for many years this Company has lacked net earnings or sufficient net earnings, the usual methods of financing are not open to us.

With these objects in mind, and with these obstacles in our path, we have succeeded in working out this Plan of Reorganization which we believe meets the situation and will conserve

the best interests of all concerned. You are, therefore, urged to give careful consideration to this Plan.

You will observe first, that if the Plan is consummated the Company will immediately receive $190,000 from the sale of $200,000, principal amount of Debenture Notes. This will make possible the immediate payment of the pressing indebtedness which is an imminent menace to the life of the Company. No payment on the principal of these Notes can be required until April, 1939, and then only to the extent of 20 per cent of the net earnings of the Company. Likewise, in each year following, until the Notes mature five years from the date of issue, only 20 per cent of the net earnings in each year can be exacted.

In the second place, when the confirmation of the Plan becomes final, the Company will, in addition, receive $50,000 in cash, payment for 25,000 common shares purchased by C. B. Ewart & Company, Incorporated, of New York City, a reputable investment banking house, with an established capacity for marketing shares. This further sum will enable the Company to discharge its other obligations, and to place itself in a position to make immediate commitments for necessary new equipment and materials.

Next, C. B. Ewart & Company will promptly proceed to sell 200,000 common shares, or such part of it as is not used in exchange for Notes. The proceeds of these shares, $400,000, will free the Company of all debt whatever, and leave it with sufficient working capital. It will then be well on the road to successful operations and profits. Moreover, it will be observed that certain options, duly restricted, for the purchase of additional shares, are given to C. B. Ewart & Company. It is believes that these options will be exercised, and that, as a consequence, the Company will receive a very substantial fund, part of which can be used for expansion, and the rest can be held as a safeguard against future contingencies. This will give to the Company a durable stability and capacity for growth which it has never before enjoyed.

The Plan provides that each preferred share now outstanding shall be exchanged for 10 shares of the new common stock, and that each common share now outstanding shall be exchanged for one share of the new common stock. It may seem that there will be rather a large number of shares issued by comparison with those which present shareholders receive under this Plan. But it should be borne in mind that the new shares to be sold bring to the Company the cash which it must have to survive, cash which also will change your present worthless shares into shares of potential and substantial value. It is the intention, at the proper time, to take steps to list these new shares on some suitable Stock Exchange. In view of the number of shares which will be issued, and their expected wide distribution, and in view of the earnings that seem probable if the Company is reorganized, as proposed, it is reasonable to expect that these shares will enjoy an active market at steadily advancing prices.

We ask you particularly to give profound consideration to the fact that the Plan proposed is the only plan we have, and the only fair and practical plan which we have been able to obtain after long search and diligent application to the problem. We cannot disguise our apprehension as to the fate of the Company if this Plan is not promptly accepted. Time presses and we know of no other haven of refuge. The probable alternative is bankruptcy, liquidation, and entire loss to shareholders.

Therefore, firmly believing that the adoption of the Plan will serve your best interests, we urge you to aid in achieving the objects sought by forwarding your acceptance to us without delay. A form for this purpose is enclosed herewith to be signed by you and returned in the accompanying envelope. As the assent of holders of a majority of the outstanding preferred and common shares is essential to the consummation of the Plan, your timely response is important.

THE NATIONAL TOOL COMPANY,
By A. J. Brandt, *President.*

S. J. Kornhauser, *Secretary.*
Cleveland, Ohio, March 30, 1937.

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE NORTHERN DISTRICT OF OHIO, EASTERN DIVISION

IN THE MATTER OF THE NATIONAL TOOL COMPANY, A Corporation, DEBTOR.	*Proceedings for Corporate Reorganization and Relief Under Section 77B of the Bankruptcy Act.* *No. 42931*

PLAN OF REORGANIZATION PROPOSED BY THE NATIONAL TOOL COMPANY, DEBTOR.

The National Tool Company, the above named Debtor, having filed its petition praying for relief according to the provisions of the Section 77B of the Bankruptcy Act, presents the following Plan of Reorganization for consideration, adoption and confirmation pursuant to the terms of the said Act.

I. *Present Capitalization of the Debtor.*

The Debtor has issued and outstanding:

(1) *Preferred Shares.* 3,480 Preferred Shares, par value $100.00 each, calling for 7% cumulative dividends. No dividends have been paid on the Preferred Shares since January, 1921. The issue, which originally consisted of 5,000 shares, was reduced by redemptions to 3,480 shares, of which 26 shares are held by the Corporation and 3,454 are in the hands of shareholders.

(2) *Common Shares.* 26,000 Common Shares, par value $50.00 each. The number of Common Shares originally authorized and issued was 26,000, of which 100 are now held by the Corporation and 25,900 are in the hands of shareholders.

II. *Obligations of the Debtor.*

The obligations of the Debtor are as follows:

(*a*) Taxes due to the State of Ohio and Cuyahoga County, past due and accrued, for which the State has a lien on the property of the Debtor, ... $22,960.40.

(*b*) Unsecured claims, ... $279,560.38.

These claims are to be paid in full in cash under the provisions of this Plan, and the holders thereof will, therefore, not be affected by this Plan.

Tax claims of the United States of America, if any, shall have the same priority and preference, if any, and the United States shall have the same rights and remedies against the Reorganized Company and its property as they now have against the Debtor and its property.

The running of Statutes of Limitation upon the collection of tax claims, if any, shall be suspended during the time proceedings for reorganization of the Debtor are pending.

III. *Proposed Capital Structure of New or Reorganized Corporation.*

The change in capital structure contemplated shall be effected by the Debtor either through amendment of its present Articles of Incorporation, or through the organization of a new corporation under the laws of Ohio, bearing the name The National Tool Company, which shall acquire all of the assets whatever of the Debtor and assume all of its obligations whatever. Whichever method appears to the Debtor best suited for the accomplishment of the objects of this Plan shall be pursued.

The present capitalization of the Debtor shall be abolished by the surrender and cancellation of all of its issued and outstanding shares, and the Debtor, upon the consummation of this Plan, shall be authorized to issue the following securities:

(1) $200,000.00, par value, Sinking Fund Debenture Notes, hereinafter more particularly described.

(2) 600,000 Common Shares, par value $1.00 each.

IV. *Description of Securities of the New, or Reorganized Corporation.*

(1) Sinking Fund Debenture Notes of the aggregate principal amount of $200,000.00 shall be sold and issued forthwith when approval of this Plan becomes final, at 95% of the principal amount thereof. These Notes shall bear interest at the rate of 6% per annum and shall mature five years from the date of issue, subject to the conditions, limitations and privileges following:

(*a*) The said Notes shall be convertible at any time prior to their maturity or to redemption by the holders thereof into Common Shares of the Reorganized Company at the rate of $2.50 per share.

(b) There shall be attached to each note a warrant, which shall be void if detached therefrom, granting to the holder thereof the option to purchase 50 Common Shares of the Reorganized Company for each $1,000.00 principal amount of said Notes at the price of $5.00 per share, at any time prior to the maturity or redemption thereof.

(*c*) The Company shall have the right to call for redemption all or any portion of the outstanding Notes, at any time, by lot, on 45 days' notice, at the following prices: During the first year after the date of the said notice at 102½% of the principal amount thereof, plus accrued interest; during the second year at 102% of the principal amount thereof, plus accrued interest; during the third year at 101½% of the principal amount thereof, plus accrued interest; during the fourth year at 101% of the principal amount thereof, plus accrued interest; and during the fifth year at 100½% of the principal amount thereof, plus accrued interest; provided, however, that when said Notes are called, the holders thereof shall have the privilege, within thirty days from the notice of such call, to exchange their called Notes for Common Shares of the Company at the rate of $2.50 per share, and to exercise the option granted by the warrants attached thereto at the price of $5.00 per share.

(*d*) These Notes shall be issued under a trust agreement between the Reorganized Company and such trustee as may be agreed upon by the Reorganized Company and C. B. Ewart & Company, Incorporated, hereinafter referred to, which trust agreement shall be in such form and shall contain such terms and provisions, not inconsistent with this Plan, as the parties thereto

may determine. The trust agreement shall contain appropriate provisions for the protection of the conversion rights of the holders of the said Notes and for the protection of the options granted by the warrants attached thereto from dilution in the event of stock dividends, stock split-ups, recapitalization, issuance of rights, or issuance of stock for less than the conversion price.

(*e*) For each year, while any of the Notes are outstanding, beginning with the calendar year 1938, the Company shall pay to the trustee under the trust agreement a sum equal to 20% of the net earnings of the Reorganized Company, after payment of all taxes, such payment to the trustee to be made on or before the first day of April following the close of such calendar year, as a sinking fund to be devoted to the purchase of Notes in the open market at the lowest price obtainable, and, in any event, at not more than the then call price, and, if such funds cannot be exhausted by such purchase, to the redemption of Notes by lot at the then call price.

(*f*) The trust agreement shall contain such further appropriate provisions as are usually included in instruments of this character.

(2) *Common Shares.* The Common Shares shall have a nominal par value of $1.00 each, and the holders thereof shall exercise the entire voting power of the Corporation and shall be entitled to all dividends out of the net earnings of the Corporation which may be declared.

V. *Disposition of Common Shares.*

(1) *To Present Preferred Shareholders.* Each holder of Preferred Shares, upon the surrender thereof, shall receive ten (10) Common Shares of the new or Reorganized Corporation for each Preferred Share so surrendered.

(2) *To Present Common Shareholders.* Each holder of Common Shares, upon the surrender thereof, shall receive one (1) Common Share of the new or Reorganized Corporation for each Common Share so surrendered.

(3) *To Be Reserved for Debenture Noteholders.* 80,000 Common Shares shall be held in reserve for the purpose of exchange with holders of Debenture Notes. And further, there shall be held in reserve for the purchasers of the said Notes, 10,000 Common Shares for issuance to the holders of warrants attached to the said Notes.

(4) *To be Sold.* 200,000 Common Shares at $2.00 per share under the terms and conditions hereinafter set forth, which, among others, provide that upon the consummation of this Plan the Underwriters shall forthwith pay to the Company the sum of $50,000 for 25,000 of the said 200,000 Common Shares.

(5) *To be Unissued Presently.* In addition to the Common Shares reserved as aforesaid, 229,560 Common Shares are to be held unissued subject to such uses and purposes as shall appear appropriate and expedient in the conduct and development of the business.

VI. *Working Capital and Extinction of Indebtedness.*

(1) Upon consummation of this Plan, the Corporation will receive forthwith the proceeds of the sale of the Debenture Notes, $190,000.00, and the proceeds of the sale of 25,000 Common Shares, $50,000.00, an aggregate of $240,000.00. This sum will be sufficient to discharge in full all liabilities which require immediate payment. Current obligations incurred, and to be incurred during the progress of the proceedings, and all valid claims against the Debtor, whatever, will be paid in full in the normal course of business.

(2) Further capital required for the purchase of machinery with which to reduce production costs and to acquire raw materials to effect savings against advancing prices will be derived from the sale of Common Shares. There will also remain in the treasury, after the completion of the sale of Common Shares, as contemplated, a sufficient reserve to meet future contingencies.

VII. *Basis of the Plan.*

This Plan is based on an offer in writing received by the Debtor from C. B. Ewart & Company, Incorporated, Investment Bankers of New York City, and approved by resolution adopted by the Board of Directors of the Debtor, by the terms of which C. B. Ewart & Company, Incorporated, has agreed that upon assent to this Plan by a majority of the holders of the outstanding Preferred and Common Shares of the Debtor, and within ten days after a decree of confirmation of this Plan shall have become final by the expiration of the period within which an appeal may be filed, and subject to the effectual accomplishment of the undertakings therein set forth, and to the conditions therein defined, it will purchase from the Reorganized Company the said issue of Debenture Notes in the principal sum of $200,000.00 for the sum of $190,000.00, and will further, at the said time, purchase from the Reorganized Company 25,000 of its Common Shares for the sum of $50,000.00, the said aggregate sum of $240,000.00, so to be paid, to be used for the discharge of the existing indebtedness of the Company.

C. B. Ewart & Company, Incorporated, further agrees to take steps immediately thereafter and to use its best efforts to sell the remainder of the said 200,000 Common Shares, the Reorganized Company to receive $2.00 for each share sold, except that to the extent to which Common Shares are taken by noteholders under the conversion privilege hereinbefore described, the sale of the remainder of the said 200,000 shares shall be diminished pro tanto.

The Reorganized Company agrees to use the proceeds derived by it from the sale of the said Common Shares for the payment of all its obligations, and to apply the balance thereof in the development and expansion of its business and for other corporate purposes. It is understood that the sale of the said 200,000 shares shall be completed within six months after the expiration of the time to appeal from the final order confirming this Plan, otherwise, the agreement shall terminate.

In consideration of the foregoing undertakings, C. B. Ewart & Company, Incorporated, shall receive the following options:

(*a*) An option to purchase 100,000 Common Shares, or any part thereof, at any time within five years from the date of the expiration of the time to appeal from the final order confirming the Plan at $2.50 per share; provided, however, that after the expiration of one year from the date of the expiration of the time to appeal from the final order confirming the Plan, in each year thereafter during said five year period, the Reorganized Company may require C. B. Ewart & Company, Incorporated, by giving notice to it within ninety days after the beginning of such year, to exercise said option as to 20,000 shares, or any part thereof, and such shares shall be paid for at any time before the expiration of said year. If such option shall not be so exercised, the option as to the remaining portion of 100,000 shares shall become void.

(*b*) An option to purchase 25,000 Common Shares, or any part thereof, at any time within three years after the date of confirmation of the Plan, at $2.50 per share.

(*c*) Further, upon the purchase of shares under these options, 25% of all profits in excess of $1.00 over the option price which shall be derived from the resale of said shares, shall be paid to The National Tool Company. Further, these options shall not become effective until the

completion of the sale of 200,000 Common Shares, less such number thereof as are used in exchange for notes as above set forth, except as provided in Sub-Paragraph (*d*).

(*d*) In the event that only part of the 200,000 shares are sold by C. B. Ewart & Company, Incorporated, or issued as a result of the exercise of conversion rights, the option granted in Sub-Paragraph (*a*) for 100,000 shares shall be reduced so that for every two shares sold or issued as a result of the exercise of such conversion rights, C. B. Ewart & Company, Incorporated, shall have an option to purchase one share.

(*e*) The option agreement to be entered into by the Reorganized Company and the C. B. Ewart & Company, Incorporated, shall contain appropriate provisions for the protection of said options against dilution in any event from stock dividends, stock split-ups, recapitalization, issuance of rights, or issuance of stock for less than the option price.

VIII. *Method of Consummating This Plan.*

The Debtor, through such of its officers or employees as the Court shall designate, upon confirmation of this Plan, shall take all steps deemed necessary or appropriate to carry it into execution. Among other things, it shall, subject to the approval of the Court, determine the form and provisions of any Certificate of Amendment, Reorganization or Incorporation which shall appear expedient for the purposes of this Plan, and the form and provisions of Regulations and By-Laws of the New or Reorganized Corporation, and of any and all other instruments necessary or appropriate for use in the course of effecting the reorganization, as well as all steps to be taken in carrying out the objects and purposes of the Plan.

IX. *Consummation of the Plan.*

Upon confirmation of this Plan by the Court, all the issued and outstanding Preferred and Common Shares of the Debtor shall, by the decree of the Court, be cancelled, and all rights and interests in such shares shall terminate, subject only to the rights of the holders thereof to receive new shares as herein provided. The Debtor shall continue in the possession and ownership of all its property whatever, to be held and operated by it either under its present corporate franchise, modified as herein provided, or under the form of a successor corporation which shall acquire all property whatever of the Debtor, and assume all of its obligations whatever.

X. *Reorganization Expenses.*

All expenses of reorganization and costs of administration actually incurred, when approved by the Court, or other allowances incident to these proceedings, made by the Court, shall be paid by the Debtor in cash.

THE NATIONAL TOOL COMPANY,
By A. J. Brandt, *President.*

Attest:
S. J. Kornhauser, *Secretary.*

Cleveland, Ohio, March 25, 1937.